



GUIDELINE FOR APPROVAL OF MAJOR FINANCIAL DECISIONS



Catholic Health
Sponsors of Ontario

Guideline for Approval of Major Financial Decisions



CHSO Responsibilities

To ensure Catholic identity endures, the Board of CHSO has some important responsibilities as the only Members (shareholders/owners) of each CHSO member organization. These are known as "reserved powers" and include responsibility:

- To approve the appointment the Board of Directors and CEO of each member organization
- To approve the Bylaw of each member organizations
- To approve any change to the member organization's mission or philosophy
- To approve any integration or merger
- To approve any major financial decision

A major financial decision is identified as having a value in excess of the "designated amount," which is established from time-to-time by CHSO. Currently, the designated amount is:

- For CHSO organizations with annual operating revenue less than \$10 million:
 - 5% of annual operating revenue
- For CHSO organizations with annual operating revenue between \$10 million and \$25 million:
 - \$500,000
- For CHSO organization with annual operating revenue greater than \$25 million:
 - 2% of annual operating revenue.

This is subject to an annual review by CHSO, which will generally occur after reviewing audited financial statements at the Annual General Meeting. The Designated Amount will then be set for each CHSO organization, considering the organization's financial results and financial risk profile.

The purpose of this particular reserved power is to ensure the sustainability of the organization and, therefore, the Catholic works. It is not the intention of CHSO to become involved in local operations. Therefore, the focus will be on major financial decisions and large projects, especially those that extend over a period of time (ie. multi-year commitments).

It is expected that there will be open and ongoing discussion between CHSO and member organizations. CHSO should be part of the process as organizations contemplate these types of transactions, so that CHSO approval is a final step with the topic has been well socialized with CHSO in advance of the formal approval.

Types of Financial Decisions

CHSO member organizations should be aware that there are several types of financial decisions that, when in excess of the designated amount, require the approval of CHSO. These include:

- Encumbering or pledging as security any real or personal property of the organization.
- Purchase, lease or sale of land or buildings.
- Entering into contracts, leases, borrowing agreements or other agreements, including lines of credit.
- Incurring any material debt or obligation, including a line of credit or issuing bonds or debentures.
- Committing to any construction project.
- Any major change to a CHSO organization's employee pension plan.

The above includes any obligation or series of obligations that, in the aggregate, exceed the designated amount.

CHSO approval is not required for ordinary course obligations of CHSO organizations to unsecured trade creditors, such as employees and vendors.

Due Diligence & Risk Mitigation

CHSO's primary foci will be to understand the nature of the situation and ensure the appropriate identification and mitigation of risk has occurred. The role of CHSO is not to complete or duplicate the due diligence expected of the CHSO member organization, but to be involved throughout the process and add value from a sponsorship perspective.

CHSO's due diligence requires it to understand the situation, the process used by the CHSO member organization to arrive at a decision, and the risks and risk mitigation strategies identified by the CHSO member organization.

CHSO member organizations should be aware that it may be using assets (land, buildings) that it does not own. In situations implicating stable patrimony (ie. Church property), the owner of the asset will be required to provide formal approval and, depending on the amount, permission of the Holy See (Vatican) may also be required.

To support the approval process, CHSO requires the CHSO member organization to provide a briefing note that captures all applicable elements on the checklist below.

Process Checklist

- ✓ Involve CHSO early in the process, prior to formal approval being requested from other parties (eg. government, Infrastructure Ontario, etc.).
- ✓ Brief summary of the situation or project.
- ✓ Benefits that will accrue to patients, resident and families served by the CHSO member organization, with particular emphasis on caring for people who are marginalized or disadvantaged in the local community.
- ✓ Expected costs.
- ✓ Contingency budget.
- ✓ Sources of funds including: government grants; local share; loans, line of credit, or debentures.
- ✓ Status of fundraising/capital campaign.
- ✓ Impact of debt repayment on financial position and cash flow.
- ✓ Impact on real assets owned by the CHSO member organization, including any financing, mortgages or liens.
- ✓ Impact on stable patrimony (property owned by a Founding Congregation, another Church entity, or the Catholic Congregational Legacy Charity) and evidence necessary approvals have been received.
- ✓ How asset will be used, summary of property leases that may be involved and, including when 3rd parties are involved, confirmation that use will be consistent with the *Health Ethics Guide*.
- ✓ Request for Proposal process to award contracts.
- ✓ Project execution plan summary, to ensure CHSO member organization and contractor capabilities are in place for successful project execution.
- ✓ Approvals obtained/required from government, Infrastructure Ontario, etc.
- ✓ Copy of an approved motion from the Board of the CHSO member organization, recommendation approval by CHSO.

This guideline will be regularly reviewed and updated based on CHSO learned experience and feedback from CHSO member organizations.

Approved by CHSO Board of Directors

March 24, 2017